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February 15, 1994

BY HAND DELIVERY

Mr. William Caton
Acting Secretary
Federal Communications Commission
1919 M Street, N.W.
Washington, DC 20554

Re: **MM Docket No. 92-266**
**Supplemental Information re: Costs for Small System
Operators Versus Large Operators**

Dear Mr. Caton:

On behalf of the Coalition of Small System Operators, we enclose for filing supplemental information prepared by several members of the Coalition regarding the actual cost of operating their systems. One Coalition member, Phoenix Cable, Inc. has prepared a narrative describing many areas where low density systems experience higher costs than high density systems. This, along with actual cost data and a supporting declaration, is attached as Attachment 1. Another operator, Star Cable associates, has completed the same form with cost data for its systems. Star's information (and a supporting declaration) is attached as Attachment 2.

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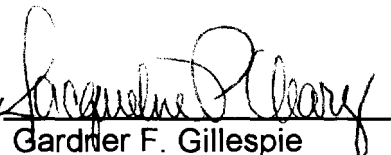
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If there are any questions regarding this information, please contact the undersigned.

Respectfully submitted,

HOGAN & HARTSON

By 
Gardner F. Gillespie
Jacqueline P. Cleary

Attorneys for the Coalition of Small
System Operators

cc: James W. Olson, Esq.
Andrea Williams, Esq.

ATTACHMENT 1

SPECIFIC DIFFERENCES

Construction Costs - Subscriber density is an important ingredient in the cost structure of a cable system. While most larger systems have densities of 100 homes per mile, rural systems often have densities of 20 homes per mile or less. As such a rural system's capital cost to wire each home is going to be greater. Although the fixed cost to build a mile of rural or suburban plant is similar the lower rural density will result in higher costs per subscriber. Since rural communities are usually spread out along a few main roads, the ratio of costly trunk to feeder is higher for a rural systems. This cost differential results from the fact that feeder requires only one cable and less expensive electronics, while trunk and feeder requires two parallel cables and more expensive electronics. Along with the above, rural systems require longer drops to subscribers because the homes are on larger lots, and are set further back from the streets (see Exhibit B).

Revenue Potential - Rural system revenue per subscriber is less than that of larger systems. Rural systems have lower demographics and consequently, subscribers purchase less services. Premium channel revenue averages less than 50% of basic revenue as compared to almost 80% in larger systems. Also, rural systems earn less ancillary revenues for services such as advertising or pay-per-view, because the fixed cost of providing these services, over a small base is too high to make them cost effective. An example of this would be the \$400 cost of renting a special descrambler for a fight offered by a promoter who wants a 50% share of gross revenue. In order to recover only that fixed cost alone from a subscriber base of 1,000 while charging customers \$20 for the event, the system would need a 4% buy rate, a penetration figure that has not been reached in rural systems.

Operating Expenses - Lower subscriber densities also result in greater operating expenses in rural systems, when measured on a per subscriber basis. Headend expenses are allocated over smaller subscriber bases and the employee ratio per subscriber is greater in rural systems (see Exhibit C). Other cable distribution plant expenses for utilities, property tax, pole rent, plant maintenance and C.L.I., although similar on a cost per mile basis, exceed those of a larger systems when compared on a cost per subscriber.

New Builds - Many rural systems were recently built at densities as low as 15 to 20 homes per mile. These systems have incurred significantly higher construction costs than in the past. Make ready, the cost that utility companies charge for rearranging telephone and power lines to provide room for the cable, has increased over the past four (4) years from a low of \$500 per mile to over \$2,000 per mile. Rural cable operators are constantly being pressured by local politicians to expand to outlying homes where home densities are even lower. Seasonal customers ie., those that occupy homes on less than a year round basis, are also demanding favorable treatment. The rural operators are being pressured to expand where the economics are not justified.

Debt Burden - Many small MSO's were recently formed to develop rural cable. Their cost structure and debt per subscriber is much higher than that for the large established MSO's. Their entire business plans may have been predicted on rate structures to meet their debt service. They were prepared to accept the risk that market forces would prevent these increases but they didn't plan for government rate regulation. The imposition of rate regulation will precipitate loan defaults, problems for lenders and losses for investors.

Programming Costs - The smaller MSO's do not enjoy any programming discounts, which presently amount to 20% of total cable TV expenses. Larger operators receive discounts as high as 5 to 20 % of rates paid by small MSO's.

Government Reporting - Small MSO's find it difficult to keep up with these additional regulatory and administrative burdens. A recent example, C.L.I. compliance and filing, has been a burdensome and costly task. Copyright and FCC reporting have always been expensive functions. Local towns and many states have their own reporting requirements as well.

DENSITY FACTORS / PROGRAMMING DISCOUNT (VOLUME)

SYSTEM PROFILE:

EXHIBIT A

Name : Wakeman, OH
Miles: 62.0
Subscribers: 842
Homes Passed: 1994
Basic Programming Cost/
Sub / Month: \$3.16

1. Expense/ Per Mile:	Annual Costs	Miles	Annual \$/Mile
Pole Rent	<u>\$7,532.00</u>	<u>62.0</u>	<u>\$121.48</u>
Property Tax	<u>6,902.00</u>	<u>62.0</u>	<u>111.32</u>
Utilities	<u>13,895.00</u>	<u>62.0</u>	<u>224.11</u>
Maintenance *	<u>5,030.00</u>	<u>62.0</u>	<u>81.13</u>
Labor *	<u>30,232.85</u>	<u>62.0</u>	<u>487.63</u>
Depreciation **	<u>77,500.00</u>	<u>62.0</u>	<u>1,250.00</u>
TOTAL EXPENSES	<u>\$141,091.85</u>	<u>62.0</u>	<u>\$2,275.68</u>

Per Mile Analysis:	Annual \$/Mile / Sub/Mile	Monthly \$/Mile / Sub/Mile
A. Total subscribers	<u>842</u>	<u>842</u>
B. Subscribers / mile	<u>13.58</u>	<u>13.58</u>
C. Expense / subscriber/mile	<u>\$167.57</u>	<u>\$13.96</u>
D. Expense / 37.75 subscribers/mile ***	<u>\$60.28</u>	<u>\$5.02</u>
E. Density Shortfall – System vs Benchmark (C – D)	<u>\$107.28</u>	<u>\$8.94 +</u>

2. Program Discount: \$3.16 sub/month X 20% = **\$0.63**

3. Headend Shortfall:	Headend Costs	Annual Depreciation/Sub	Monthly Depreciation/Sub
Typical Rural System	150,000	\$14.85	\$1.24
Typical Suburban System	<u>250,000</u>	<u>\$2.08</u>	<u>\$0.17</u>
F. Variance Headend Shortfall:	(100,000)	\$12.76	\$1.06

4. Pay Penetration (per subscriber):	
Pay Revenue:	\$10.00
Pay Cost:	<u>5.00</u>
Pay Profit:	\$5.00
*Penetration	
Variance:	<u>30%</u>
Revenue Shortfall:	\$1.50

5. Ancillary Services: Pay Per View, Advertising Revenue (est): **\$1.00**

WAKEMAN, OH SYSTEM**EXHIBIT A (cont.)****SHORTFALL SUMMARY SUB/MONTH:**

Expenses Per Mile (Density) (line E)	\$8.94
No Programming Discounts (20%):	0.63
Headend Subscriber Allocation (line F):	1.06
Pay Penetration Margin; 80% vs 50%:	1.50
No Ancillary Services (est.)	1.00
Total:	\$13.13

*** FOOTNOTES:**

<u>Labor (Std 1 Tech for 75 Miles)</u>		<u>Maintenance</u>		<u>Headend</u>	
Salary + taxes	<u>\$24,000.00</u>	Tools	<u>\$400.00</u>	25 satellite X \$2,500	62,500
Overtime (CLI compliance, etc)	<u>\$2,000.00</u>	Repairs	<u>\$3,130.00</u>	8 offair X \$1,500	12,000
Benefits	<u>\$5,000.00</u>	Testing/CLI Equ	<u>\$1,500.00</u>	Tower & Antennas	7,500
Workman's Comp.	<u>\$1,072.00</u>			Bldg/Land	25,000
Vehicle Repairs / Maint.	<u>\$2,000.00</u>	TOTAL	<u>\$5,030.00</u>	4 Dishes	10,000
Vehicle Gas	<u>\$2,500.00</u>			Supplies, Labor, Taxes, misc.	<u>33,000</u>
TOTAL	<u>\$36,572.00</u>				150,000
Allocated Tech (62 miles / 75 miles)	<u>\$30,232.85</u>				

* Suburban pay penetration:	80%
Rural pay penetration:	50%
Pay penetration variance:	30%

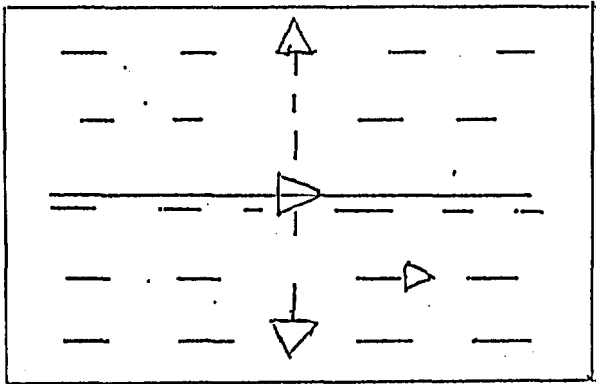
** Depreciation \$15,000 mile / 12 years

*** 37.75 Benchmark average subs per mile per FCC data base.

Exhibit B

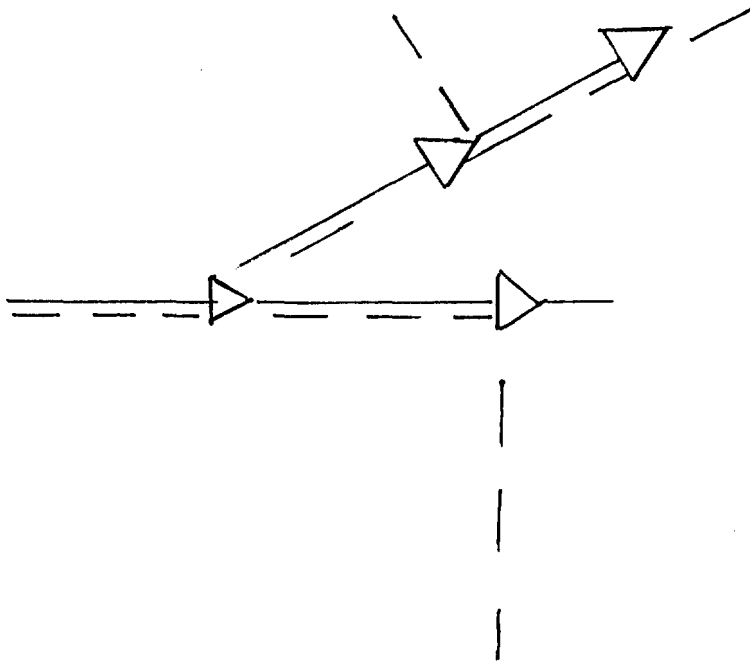
Trunk / Feeder Rates
Suburban / Urban vs. Rural

Suburban / Urban



$$\frac{T}{F} = \frac{1}{4}$$

Rural



$$\frac{T}{F} = \frac{1}{2}$$

Trunk —————
Feeder — — — — —

Exhibit C

EMPLOYEES

RURAL

1,500 Subscribers

100 Miles

1 Headend

Chief Tech 1

Tech 1

CSR $\frac{1}{3}$

1,500

500/Subscribers per Employee

SUBURBAN / URBAN

15,000 Subscribers

100 Miles

1 Headend

G. M. 1

Tech 6

CSR $\frac{5}{12}$

15,000

1,250/Subscribers per Employee

DENSITY FACTORS/PROGRAMMING DISCOUNT (VOLUME)
Systems Summary

<u>Summary:</u>	<u>PHOENIX CABLE, INC.</u> <u>Wakeman, OH</u>	<u>Old Forge, NY</u>	<u>WESTERN CABLED SERVICE</u> <u>Woodside, CA</u>	<u>Portola Valley, CA</u>	<u>* TRIAX COMMUNICATIONS</u> <u>Aggregate Systems</u>
Homes Passed:	1,994	1,250	1,652	1,437	510,253
Miles of Plant:	62.0	60.0	51.6	37.5	12,672.0
Subscribers:	842	939	873	821	334,077
Basic Penetration:	42.2%	75.1%	52.8%	57.1%	65.5%
Sub/Mile:	14	16	17	22	26
Basic Programming Cost (sub/month)	\$3.16	\$2.61	\$3.59	\$3.59	\$4.71
Expenses Per Mile (Density)	\$6.94	\$6.36	\$11.93	\$7.40	\$1.71
No Program Discounts (20%)	0.63	0.52	0.72	0.72	0.94
Headend Subscriber Allocation	1.06	0.94	1.19	1.27	1.42
Pay Penetration Margin; 80% vs 50%	1.50	1.50	1.50	1.50	1.50
No Ancillary Services (est)	1.00	1.00	1.00	1.00	1.00
	\$13.13	\$10.82	\$16.34	\$11.89	\$6.57

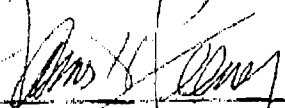
* Includes all systems, some with higher than benchmark density (37.75 sub/mile)

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DECLARATION

I, James Feeney, declare under penalty of perjury that the attached information regarding Phoenix Cable, Inc. was prepared under my supervision and is true and correct to the best of my knowledge, information and belief.

Dated:  _____

James Feeney
Executive Vice President

FEB 14 '94 02:52PM HOGAN & HARTSON

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DECLARATION

I, Jeffrey M. Stevens, declare under penalty of perjury that the attached information regarding Western Cable Systems was prepared under my supervision and is true and correct to the best of my knowledge, information and belief.



Jeffrey M. Stevens

Dated: 2/14/94

ATTACHMENT 2

DENSITY FACTORS / PROGRAMMING DISCOUNT (VOLUME)

SYSTEM PROFILE:

Name: OH
 Homes Passed: 14,476
 Miles: 698
 Subscribers: 9290
 Basic Programming Cost/
 Sub / Month: 3.31

SHORTFALL SUMMARY SUB/MONTH:

Density Shortfall (see below +):

++ Lack of Volume Discount (20%):

Total:

13.67
0.66
14.33

Expense,
Per Mile:

	Annual Cost	Miles	Annual \$/Mile
Pole Rent	<u>94,887</u>	<u>698</u>	<u>135.94</u>
Property Tax	<u>95,321</u>	<u>698</u>	<u>136.42</u>
Utilities	<u>170,312</u>	<u>698</u>	<u>244.00</u>
Maintenance *	<u>28,888</u>	<u>698</u>	<u>41.39</u>
Labor *	<u>281,577</u>	<u>698</u>	<u>403.41</u>
Depreciation **	<u>1,683,504</u>	<u>698</u>	<u>2411.90</u>
TOTAL EXPENSES	<u>2,354,389</u>	<u>698</u>	<u>3373.06</u>

Per Mile Analysis:

	Annual \$/Mile / Sub/Mile	Monthly \$/Mile / Sub/Mile
A. Total subscribers	<u>9290</u>	<u>9290</u>
B. Subscribers / mile	<u>13.31</u>	<u>13.31</u>
C. Expense / subscriber/mile	<u>253.43</u>	<u>21.12</u>
D. Expense / 37.75 subscribers/mile ***	<u>89.35</u>	<u>7.45</u>
E. Shortfall -- System vs Benchmark (C - D)	<u>164.08</u>	<u>13.67 +</u>

* FOOTNOTES:

Labor (Std 1 Tech for 75 Miles)

Salary + taxes

Overtime (CLI compliance, etc)

Benefits

Workman's Comp.

Vehicle Repairs / Maint.

Vehicle Gas

TOTAL

Allocated Tech (miles / 75 miles)

159,286
22,491
40,414
5,352
27,122
26,912
281,577

Maintenance

Tools

Repairs

Testing/CLI

TOTAL

0 All tools are Capitalized
28,888
_____ Included in labor, not tracked separately
28,888